

## REQUEST FOR APPROVAL OF COMMUNITIZATION AGREEMENT

Headington Oil Limited Partnership  
7557 Rambler Road  
Suite 1100  
Dallas, TX 75231

Township 22 North, Range 59 East  
Section 17: ALL  
Section 20: ALL  
1300.65 Acres  
Richland County

State Tract(s):  
**Section 17:** Yellowstone River Bed  
Acres: 128.07; Trust: Common Schools  
**Section 20:** Yellowstone River Bed  
Acres: 182.96; Trust: Common Schools

Headington Oil Limited Partnership has filed a request with the Department for the approval of a communitization agreement to communitize State owned acreage to permit development in conformity with regulations of the Montana Board of Oil and Gas Conservation Commission (BOGC).

A communitization agreement brings together small tracts sufficient for the granting of a well permit under applicable spacing rules. Communitization agreements are not formed until after a well has been drilled and proven to be productive. The communitization agreement provides for distribution of royalties and must be approved and signed by the Department to be effective. Communitization is important in the prevention of drilling of unnecessary and uneconomic wells which would result in physical and economic waste.

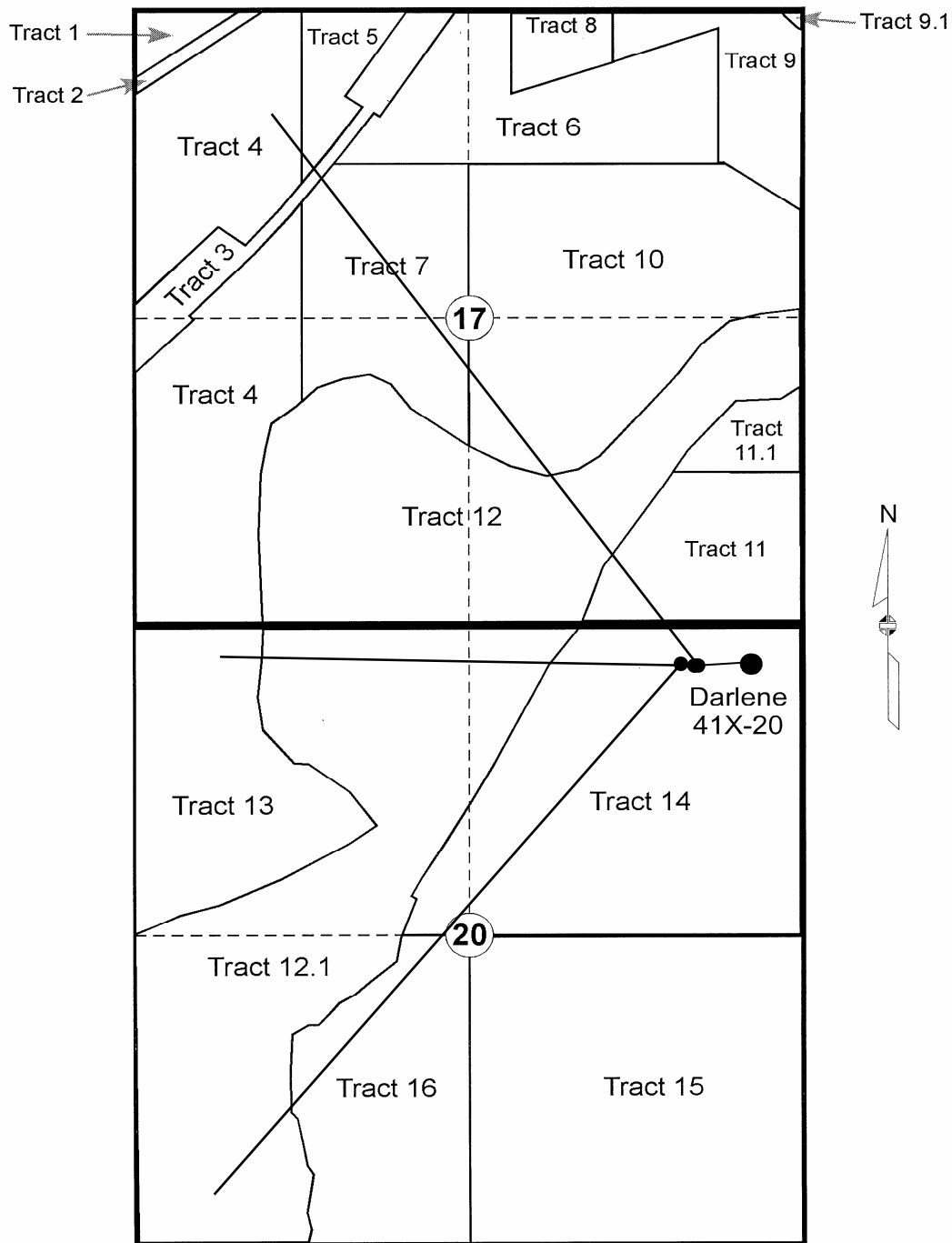
The Darlene 41X-20 well, which is a tri-lateral Bakken formation oil well, was drilled in the NE $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 20. This spacing unit has a total of 1300.65 acres. The State owns a total of 311.03 acres of the 1300.65 mineral acres in the spacing unit that will be communitized. All the mineral owners in the spacing unit will share in the royalty from this well. The Communitization Agreement includes the Bakken formation in Sections 17 & 20.

The State has 2 tracts which comprise 23.91% of the communitized area. The communitized production will be allocated to each tract based upon the relationship of its acreage to the total acreage within the communitized area. The State will consequently receive 1.28% of all oil production (13% royalty rate x 9.85% tract participation), and 1.23% of Gas production (12.5% royalty rate x 9.85% tract participation) for tract 12.

The State will receive 1.83% of all oil production (13% royalty rate x 14.07% tract participation), and 1.76% of Gas production (12.5% royalty rate x 14.07% tract participation) for tract 12.1.

The Communitization Agreement will allow the State to receive its proper share of production from the spacing unit. Therefore, the Director recommends approval of this Communitization Agreement.

# Township 22 North, Range 59 East



Section 17

Section 20

See next page for recapitulation table

## Recapitulation

Montana Oil & Gas Lease No.	Tract No.	No. of Acres Committed	% of Interest in Communitized Area	Royalty Rate	Owners Interest
OG-34961-03	12	128.03	9.8466%	13.00%	1.2800%
OG-34963-03	12.1	182.91	14.0668%	13.00%	1.8286%
Fee Owners	1-15 *	989.71	76.0935%		
<b>Total</b>	<b>15</b>	<b>1300.65</b>	<b>100.00%</b>		

\* Less State Tracts

The Operator of the communitized area will be Headington Oil Limited Partnership